SEBI's Proposals on Colocation Facilities

Why in news?

\n\n

SEBI has addressed the complaints regarding Algo trading in colocation facilities.

\n\n

What is Algo trading?

\n\n

> \n
> - Algorithmic trades are orders executed on the stock exchange platform by computers through a programme designed by the user.
>   \n
> - Algo trades can involve different degrees of manual intervention ranging from zero-touch algorithms which does not require much manual intervention.
>   \n
> - It was introduced in 2009 in India and there has been rising interest from large domestic and foreign institutional investors. Click here to know more.
>   \n

\n\n

What is colocation facility?

\n\n

> \n
> - A colocation facility is a physical data centre that allows customers to deploy their own servers, networks and storage hardware.
>   \n
> - It is powered by Internet bandwidth, electricity, backup power and other services generally required in a data centre.
>   \n
> - The colocation feed includes all the orders entered in to the SE trading system along with order alterations, cancellations and executions
>   \n
> - It can be used only by machines which can spot trading opportunities by scanning through voluminous data and therefore will be useful only to

programs that run from colocation facilities.

- It also allows trading members and other institutional players to place their servers' right next to the Stock Exchange servers so that their latency-sensitive strategies can work effectively.

What are the recent resolutions by SEBI on colocation?

- SEBI has announced that stock exchanges should publish minimum, maximum and mean latencies within the colocation facility.
- This would aid in bringing parity among these users and to increase transparency.
- The board has also decided to introduce shared colocation facilities that allow smaller members to rent rack space for Algo trading.
- A Tick-by-Tick Data feed is proposed to be made available to all trading members, free of charge by the exchanges.

What are the significance of SEBI's proposals?

- SEBI has found a solution to tackle the challenge posed by the unregulated Algo trading by deciding to introduce colocation facilities.
- Colocation facilities are more favourable to the long term investors for whom speed of execution matters little.
- But SEBI has also planned for the data feed which will be beneficial for the small investors, who trading involves crunching numbers.
- The new proposals will boost Algo trading as it accounts for more than 40 per cent of the cash and derivative turnover and almost 80 per cent of the orders.

\n\n

\n\n

Source: Business Line

\n\n

\n